

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Wednesday, September 6, 1944, at 11:00 a.m.

PRESENT: Mr. Eccles, Chairman  
Mr. Ransom, Vice Chairman  
Mr. Draper  
Mr. Evans

Mr. Bethea, Assistant Secretary  
Mr. Carpenter, Assistant Secretary  
Mr. Clayton, Assistant to the Chairman

The action stated with respect to each of the matters herein-after referred to was taken by the Board:

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on September 5, 1944, were approved unanimously.

Memorandum dated August 29, 1944, from Mr. Thomas, Assistant Director of the Division of Research and Statistics, recommending that the following increases in basic annual salaries of employees in that Division be approved, effective September 16, 1944:

<u>Name</u>	<u>Designation</u>	<u>Salary Increase</u>	
		<u>From</u>	<u>To</u>
Burgess, Caroline M.	Library Assistant	\$2,100	\$2,300
Esser, Eleanor M.	Library Assistant	2,160	2,300
Shupe, Cora Jean	Library Assistant	1,800	1,980
Sherrill, Vera Myers	Library Aid	1,440	1,620

Approved unanimously.

Memorandum of this date from Mr. Thomas, Assistant Director of the Division of Research and Statistics, submitting the resignation of

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Miss Alice Coffman as a clerk in that Division, to become effective as of the close of business on September 12, 1944, and recommending that the resignation be accepted as of that date or at an appropriate earlier date if she uses any annual leave prior to leaving the service of the Board on September 9, 1944.

The resignation was accepted as recommended.

Memorandum of this date from Mr. Thomas, Assistant Director of the Division of Research and Statistics, submitting the resignation of Miss Katheryn E. Grimes as a clerk in that Division, to become effective as of the close of business on September 6, 1944, and recommending that the resignation be accepted as of that date.

The resignation was accepted as recommended.

Memorandum of this date from the Personnel Committee submitting the name of Rosco Stone, a farmer of Hickman, Kentucky, for appointment as a director of the Louisville Branch of the Federal Reserve Bank of St. Louis for the unexpired portion of the term ending December 31, 1946, and recommending (1) that the Chairman of the Federal Reserve Bank of St. Louis be requested to ascertain informally whether Mr. Stone would accept appointment and (2) that the appointment be tendered if he would accept.

Approved unanimously.

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Telegram to Mr. Peyton, President of the Federal Reserve Bank of Minneapolis, stating that, subject to conditions of membership numbered 1 to 3 contained in the Board's Regulation H and the following special condition, the Board approves the application of the "Miles City Bank, Miles City, Montana", Miles City, Montana, for membership in the Federal Reserve System and for the appropriate amount of stock in the Federal Reserve Bank of Minneapolis:

- "4. Such bank shall pay no dividends to common stockholders until the surplus account has been increased to not less than twenty per cent of its capital and, within such time as may be deemed reasonable by the Federal Reserve Bank of Minneapolis, such bank shall strengthen its management in a manner satisfactory to the Federal Reserve Bank."

The telegram requested that the Federal Reserve Bank advise the applicant bank of the Board's approval of the application and conditions of membership prescribed, together with necessary instructions as to the procedure for accomplishing membership, and stated that a letter containing detailed advice regarding such approval would be forwarded to the applicant bank through the Reserve Bank.

Approved unanimously.

Memorandum dated September 5, 1944, from Chairman Eccles reading as follows:

"On March 26, 1942, the Board created the War Loans Committee for the purpose of supervising, under the general direction of the Board of Governors, the activities of the Federal Reserve System as Fiscal Agent for the War Department, Navy Department, and Maritime Commission under Executive Order 9112.

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"On July 3, 1942, in connection with a rearrangement of assignments among individual Board members, the Board expanded the responsibilities of the War Loans Committee to include the administration of Federal Reserve activities relating to industrial loans under section 13(b) of the Federal Reserve Act.

"No further change has been made in the scope of the Committee's responsibilities since that time although, as you know, the Contract Settlement Act was approved on July 14, 1944, and there has been considerable work done during recent months in shaping up a program for the financing of war contract termination. Moreover, the Board has revised its Regulation V so that it relates both to loans under Executive Order 9112 and under the Contract Settlement Act. I therefore recommend that the authority of the War Loans Committee be broadened to include the administration of Federal Reserve activities pursuant to the provisions of the Contract Settlement Act of 1944."

Approved unanimously.

In a letter addressed to the Board under date of September 4, 1944, Mr. Hinckley, Director of Contract Settlement, stated that he approved and concurred in the schedule of fees and rates in connection with termination guarantees and loans under Regulation V as proposed in the Board's letter of September 2, 1944.

All steps preparatory to putting the termination loan program into effect having been completed, the following unanimous actions were taken by the Board:

1. Effective September 11, 1944, Regulation V, Financing of War Production and War Contract Termination, was amended to read as follows:

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"FINANCING OF WAR PRODUCTION AND WAR CONTRACT  
TERMINATION

"REGULATION V

"Revised Effective September 11, 1944

"SECTION 1. AUTHORITY

"This regulation is based upon and issued pursuant to the Executive Order of the President, No. 9112, dated March 26, 1942 (herein called the Executive Order), section 7 of the Act of June 11, 1942, 50 U.S.C. (Appendix) 1107, the Contract Settlement Act of 1944, approved July 1, 1944 (herein called the Settlement Act) and various provisions of the Federal Reserve Act, and has been approved by the Director of Contract Settlement.<sup>1</sup>

"SECTION 2. OBJECTIVE OF THE FEDERAL RESERVE SYSTEM

"The objective of the Federal Reserve System in carrying out the purposes of the applicable provisions of the Executive Order and of the Settlement Act is to facilitate and expedite the financing of contractors, sub-contractors and others in connection with war production and in connection with claims arising out of the termination of war contracts or operations. The Board of Governors of the Federal Reserve System and the Federal Reserve Banks will cooperate fully in order to achieve this objective. The Federal Reserve Banks have heretofore been designated as fiscal agents of the United States by the Secretary of the Treasury pursuant to the terms of the Executive Order and are authorized by the Settlement Act to act on behalf of the contracting agencies<sup>2</sup> as fiscal agents of the United States in carrying out the purposes of the Act.

"SECTION 3. OPERATIONS OF THE FEDERAL RESERVE BANKS

"The operations of the Federal Reserve Banks pursuant to the provisions of the Executive Order and of the Settlement Act will be conducted, under the supervision of the Board of Governors of the Federal Reserve System, in accordance with such instructions as may be issued by the contracting agencies.

<sup>1</sup>The Executive Order, section 7 of the Act of June 11, 1942, and pertinent provisions of the Contract Settlement Act of 1944 are printed in the Appendix.

<sup>2</sup>The term 'contracting agency' is used herein with the same meaning as that given it in the Contract Settlement Act of 1944.

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## "SECTION 4. RATES

"Rates of interest, guarantee and commitment fees, and other charges with respect to loans made or guaranteed in whole or in part by any contracting agency through the agency of any Federal Reserve Bank will from time to time be prescribed, either specifically or by maximum limits or otherwise, by the Board of Governors of the Federal Reserve System with the concurrence of the Director of Contract Settlement.

## "SECTION 5. RESPONSIBILITY AND EXPENSES OF FEDERAL RESERVE BANKS

"No Federal Reserve Bank shall have any responsibility or accountability except as agent in taking any action under the Executive Order, the Settlement Act, or this regulation. In any case in which any Federal Reserve Bank shall make or participate in making any loan, discount advance, guarantee or commitment as agent of any contracting agency under authority of the Executive Order or of the Settlement Act, all such funds as may be necessary to carry out any obligation assumed on behalf of such contracting agency shall be supplied by and disbursed under authority from such agency in accordance with such procedure as it may require. Each Federal Reserve Bank shall be reimbursed by each contracting agency for all expenses and losses (including, but not limited to, attorneys' fees and expenses of litigation) incurred by such Federal Reserve Bank in acting as fiscal agent of the United States on behalf of such contracting agency under or pursuant to the Executive Order or the Settlement Act.

## "SECTION 6. REPORTS

"Each Federal Reserve Bank shall make such reports as the Board of Governors of the Federal Reserve System shall require with respect to its operations pursuant to the terms of the Executive Order or the Settlement Act and of this regulation."

2. Effective September 11, 1944, the last sentence of subsection (h) of section 1 of Regulation A, Discounts for and Advances to Member Banks by Federal Reserve Banks, was amended to read as follows, with the understanding that the Federal Reserve Banks would be requested to have copies of the amendment printed for distribution in their respective districts:

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"The requirement of this section of the regulation that a note, draft, or bill of exchange be negotiable shall not be applicable with respect to any note, draft, or bill of exchange evidencing a loan which is in whole or in part the subject of a guarantee or commitment made pursuant to Executive Order No. 9112 or the Contract Settlement Act of 1944."

3. The following letter to the Presidents of all the Federal Reserve Banks, together with the fees and rates referred to therein, was approved, with the understanding that copies of the letter would also be sent to Colonel John C. Mechem of the War Department, Lieutenant Commander Donald P. Welles of the Navy Department, Mr. R. E. Anderson of the United States Maritime Commission, and Honorable Robert H. Hinckley, Director of Contract Settlement:

"As you know, the Director of Contract Settlement on August 18, 1944, issued his General Regulation No. 1, a copy of which was sent to you under date of August 25, 1944, prescribing procedures and policies to be followed in the guaranteeing of termination loans by the War and Navy Departments and the Maritime Commission, through the Federal Reserve Banks, pursuant to the Contract Settlement Act of 1944. The steps necessary to put the program into effect have now been completed.

"Effective September 11, 1944, the Board of Governors has revised its Regulation V, Financing of War Production and War Contract Termination, in the form enclosed with the Board's letter of August 12, 1944. Effective as of the same date, the Board has amended its Regulation A, Discounts for and Advances to Member Banks by Federal Reserve Banks, by changing the last sentence of subsection (h) of section 1 of that Regulation to read as set forth in the Board's letter of August 12, 1944.

"Pursuant to section 4 of the revised Regulation V, and with the concurrence of the Director of Contract Settlement, the Board has prescribed, effective September 11,

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"1944, the following schedule of guarantee and commitment fees with respect to termination (T-Loan) guarantees and loans:

GUARANTEE FEES ON TERMINATION LOANS GUARANTEED PURSUANT TO THE CONTRACT SETTLEMENT ACT OF 1944	
<u>Per cent of loan guaranteed</u>	<u>Guarantee Fee</u> (Per cent of interest payable by borrower on guaranteed portion of loan)
80 or less	10
85	15
90	20
95	30
Over 95	50

MAXIMUM COMMITMENT FEE

THAT MAY BE CHARGED BORROWER BY FINANCING INSTITUTION

1/4 of 1 per cent per annum<sup>1</sup> or

A flat fee of not to exceed \$50.00<sup>2</sup>

"The Board has also fixed, with the concurrence of the Director of Contract Settlement, a rate of 4-1/2 per cent as the maximum interest rate on T-loans.

"In order to achieve uniformity, the above schedule of guarantee and commitment fees and the maximum interest rate have also been prescribed by the Board, with the concurrence of the Director of Contract Settlement, to govern guarantees of V and VT loans, under Executive Order No. 9112 executed on the revised form of 1944 V-Loan Guarantee Agreement which will be prescribed in the near future.

"In the case of both T-loans and V and VT loans, no termination fee, service fee, or other fee of a similar character, except charges covering out-of-pocket expenses, may be charged a borrower by a financing institution.

"In his General Regulation No. 1, the Director approved standard forms of T-Loan Guarantee Agreement and Termination Loan Agreement with Explanatory Notes regarding their use; but the Regulation provided that technical amendments not affecting policy might be made in the Termination Loan Agreement and the Explanatory Notes by agreement among the War and Navy Departments, the Maritime Commission and the Board of Governors. Pursuant to this authority, the War and

- 1/ To be based on average daily unused balance of the maximum principal amount of the loan.
- 2/ Without regard to the amount or maturity of the commitment.



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"Navy Departments, the Maritime Commission and the Board of Governors have agreed to certain minor technical changes in the form of Termination Loan Agreement and in the Explanatory Notes. Otherwise, the forms enclosed herewith for use in connection with T-Loans are the same as those which were appended to the Director's General Regulation No. 1 of August 18, 1944.

"In connection with the inauguration of the T-Loan program, the following documents are enclosed herewith:

1. Photostats of letters of instructions to all Federal Reserve Banks from the War Department and the Navy Department, dated September 4, and August 29, 1944, respectively, with respect to termination loans and guarantees; and duplicate original prepared on 'ditto' machine of letter of instructions from the Maritime Commission to all Federal Reserve Banks, dated August 22, 1944, with respect to termination loans and guarantees.

2. Photostat of memorandum from the Honorable Henry L. Stimson, Secretary of War, to the Under Secretary of War, dated July 24, 1944, delegating authority and discretion under the Contract Settlement Act of 1944; and photostat of letter from the Under Secretary of War dated July 24, 1944, to the Chief of Staff and to the Commanding Generals of Army Service Forces and Army Air Forces, delegating authority and discretion under the Contract Settlement Act of 1944, to be exercised to the extent and in the manner prescribed by the War Department Procurement Regulations. (With respect to the last-mentioned document, the War Department Procurement Regulations have not yet been issued; but adequate delegations of authority to Financial Contracting Officers of the War Department to act in connection with termination guarantees and loans are contained in section 1 of the War Department's instructions to the Federal Reserve Banks referred to in paragraph 1 above.)

3. Photostat of memorandum signed by the Honorable James V. Forrestal, Secretary of the Navy, dated August 29, delegating to the Chief

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"of Procurement and Material authority with respect to loans and certain advance payments under the Contract Settlement Act of 1944; and photostat of memorandum from the Chief of Procurement and Material, dated August 30, 1944, to the Assistant Chief of Procurement and Material in Charge of Procurement, re delegating such authority.

4. Copy of Supplement No. 1 to General Order No. 57 of the United States Maritime Commission, delegating certain authority with respect to the execution of guarantees on behalf of the Maritime Commission under section 10 of the Contract Settlement Act of 1944. (This document was published in the Federal Register, Vol. 9, No. 175, p. 10719, September 1, 1944.)

5. Photostats of letters from the War Department, Navy Department, and Maritime Commission, dated September 4, September 2, and September 5, 1944, respectively, authorizing the use of the standard form of T-Loan Guarantee Agreement and standard form of Termination Loan Agreement, together with Explanatory Notes with respect to such forms.

6. One duly authenticated copy each of the standard form of T-Loan Guarantee Agreement, the form of Termination Loan Agreement, including the Exhibits thereto, and Explanatory Notes regarding the use of such forms in the form as approved by the Director of Contract Settlement on August 18, 1944, supplemented by certain technical amendments not affecting policy in the form of Termination Loan Agreement and Explanatory Notes. These forms, all bearing the date of September 1, 1944, were enclosed in identical language with the letters from the War Department, Navy Department, and Maritime Commission referred to in paragraph 5 above.

7. Photostat of letter from Director of Finance, Maritime Commission, dated September 4, 1944, designating as Maritime Commission representatives for termination loan guarantees the persons now authorized to act as such with respect to guaranteed loans under Executive Order No. 9112.

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"A separate letter is being sent you enclosing a form of application for T-loan guarantees. A supply of the printed T-Loan Guarantee Agreement and Termination Loan Agreement with Explanatory Notes and of the application form will be dispatched to your Bank in the next day or two and should reach all Federal Reserve Banks not later than September 11, 1944. A supply of the Director's General Regulation No. 1 will also be sent you at the same time in printed form.

"Pending receipt of a supply of the printed forms, it is suggested that your Bank prepare a circular to financing institutions in your district with reference to this matter, to be dated September 12, 1944, and to be mailed on that date. This circular should include in its text or as an enclosure the schedule of guarantee and commitment fees and maximum rate of interest, as specified above, and should also enclose a copy of the T-Loan Guarantee Agreement, Termination Loan Agreement, Explanatory Notes, application form, and the text of the Director's General Regulation No. 1. It is suggested that in your circular on the subject you call particular attention to the policies prescribed by the Director in his Regulation.

"It is contemplated that a press statement regarding the T-Loan program will be issued by the Board of Governors for release on September 11, and we will wire you the text of such statement before it is released."

Letter to the Presidents of all the Federal Reserve Banks reading as follows:

"You will find enclosed a memorandum from the War Department, dated September 5, 1944, signed by Colonel Paul Cleveland, Chief, Advance Payment and Loan Branch, regarding the submission of statements of guarantee fees received on terminated guarantee agreements.

Approved unanimously.

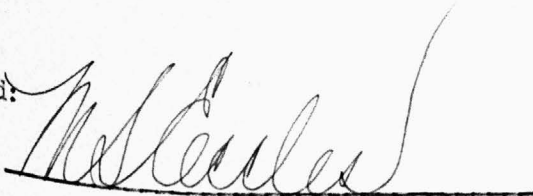
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Thereupon the meeting adjourned.



Assistant Secretary.

Approved:



Chairman.